

RESOLUTION NO. 2013-1040

**A RESOLUTION OF THE BOARD OF DIRECTORS OF VALLEY SANITARY DISTRICT
STATING THE DISTRICT'S POLICY REGARDING DISTRICT RESERVE POLICY.**

WHEREAS, the Valley Sanitary District is a governmental agency that is responsible for providing sanitary services and maintaining a sewer collection system; and

WHEREAS, the purpose of the Valley Sanitary District's (VSD) Financial Reserves Policy is to ensure that the District continues to have sufficient funding available to meet its operating, non-operating, capital and debt service obligations; and

WHEREAS, adequate reserves and sound financial policies maintain VSD's bond ratings in the capital markets, provide financing flexibility and sustain debt covenant compliance; and

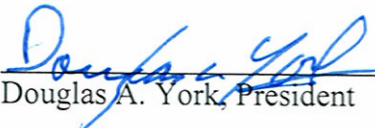
WHEREAS, the Financial Reserve Policy recommends establishing various reserve categories, defines the purpose and use of these funds and identifies target levels and priority funding of the reserves.

NOW, THEREFORE, the Board of Directors of Valley Sanitary District **HEREBY RESOLVES** as follows:

- Section 1: The Financial Reserve Policy is attached hereto as Exhibit "A"
- Section 2: On an annual basis, the Board of Directors shall review the funding options and target levels of the Financial Reserve Policy.
- Section 3: This Financial Reserve Policy shall be effective July 1, 2013.

PASSED, APPROVED, and ADOPTED this 9th day of April, 2013, by the following roll call vote:

AYES:
NAYES:
ABSENT:
ABSTAIN:



Douglas A. York, President

ATTEST:


Merritt Wiseman, Secretary-Treasurer

EXHIBIT A: VALLEY SANITARY DISTRICT FINANCIAL RESERVE POLICY

PURPOSE

Prudent financial planning and fiscal responsibility includes anticipating and preparing for future funding requirements as well as unforeseen and unexpected emergencies, disasters, and other events. The Valley Sanitary District has established reserve funds for its long term organizational and operational stability and the reserve funds enable the District to minimize significant rate fluctuations due to unforeseen and expected cash flow requirements. This Reserve Fund Policy is to ensure that the District accumulates, manages, maintains, and uses certain financial resources only for specific purposes.

TYPES OF RESERVE FUNDS

The District maintains two types of funds:

1. Restricted Reserves. Restricted reserves are reserves that are restricted by an outside source, such as by statute, court, or contract.
2. Designated Reserves. Designated reserves are reserves that are established and set aside to be used only for a specific, designated purpose.

SPECIFIC RESERVE FUNDS

The District maintains the following reserve funds:

1. **Capital Replacement Reserve Fund** - The Capital Replacement Reserve Fund (Fund 12) is a designated reserve to be used to fund the capital improvement program and for unforeseen capital projects that are necessary to meet regulatory requirements, system reliability, repair and replacement of District Assets. It is the goal of the District to *fund* on an annual basis the Capital Replacement Reserve at forty (40) percent of the annual Operations & Maintenance budget (Fund 11).
2. **Capital Improvement Reserve Fund** - The Capital Improvement Reserve Fund (Fund 13) is a designated reserve to be used to fund the capital improvements that are required due to growth and new users in the system. It is primarily funded by developer impact fees, special developer agreements and capacity connection charges.
3. **Debt Service Reserve Fund** - The Debt Service Reserve Fund is a restricted reserve that is governed by legal bond covenants and is to be used if the District is unable to meet the required debt service obligation. The bond covenants require that the Debt Service Reserve be maintained at a level sufficient to fund the maximum annual debt service payments.
4. **Emergency Reserve Fund** - The Emergency Reserve Fund is to be used only to cover cash flow shortages caused by an unexpected event, such as a natural disaster, water shortage situation, or other unforeseen expense. It is the goal of the District to

maintain the Emergency Reserve at five (5) percent of the annual Operations & Maintenance budget (Fund 11).

5. *Operating Reserve Fund* - The Operating Reserve Fund is a designated reserve to be used only to cover cash flow shortages caused by a short-term, unexpected disruption of anticipated revenue or when expenses become due before the anticipated revenue to pay those expenses is received. It is the goal of the District to *maintain* the Operating Reserve in excess of fifty (50) percent, or six months, of the annual Operations & Maintenance budget.
6. *Vehicle & Equipment Replacement Reserve Fund* - The Vehicle & Equipment Replacement Reserve Fund is a designated reserve that is designated to adequately fund replacement of major vehicles and equipment by the District. This fund shall be *funded* on an annual basis and the by amount established annually in the District Operations & Maintenance budget.

MANAGEMENT OF RESERVE FUNDS

The Board of Directors, in consultation with the General Manager, will be responsible for managing the reserve funds. The Board of Directors must authorize the expenditure of money from all of the District's reserve funds. The Board annually will review the balance of the reserve funds, work collaboratively with the General Manager to ensure the accuracy of the annual report, and evaluate the goals and purpose of each reserve fund and recommend adjustments as may be necessary or desirable.

In accordance with the District's Investment Policy, financial reserves may be invested or otherwise held in District financial accounts, as deemed appropriate by the Board of Directors, in carrying out their fiduciary responsibilities.